Chain Store Age EXECUTIVE

with Shopping Center Age

The newsmagazine for retail operations

January 1984

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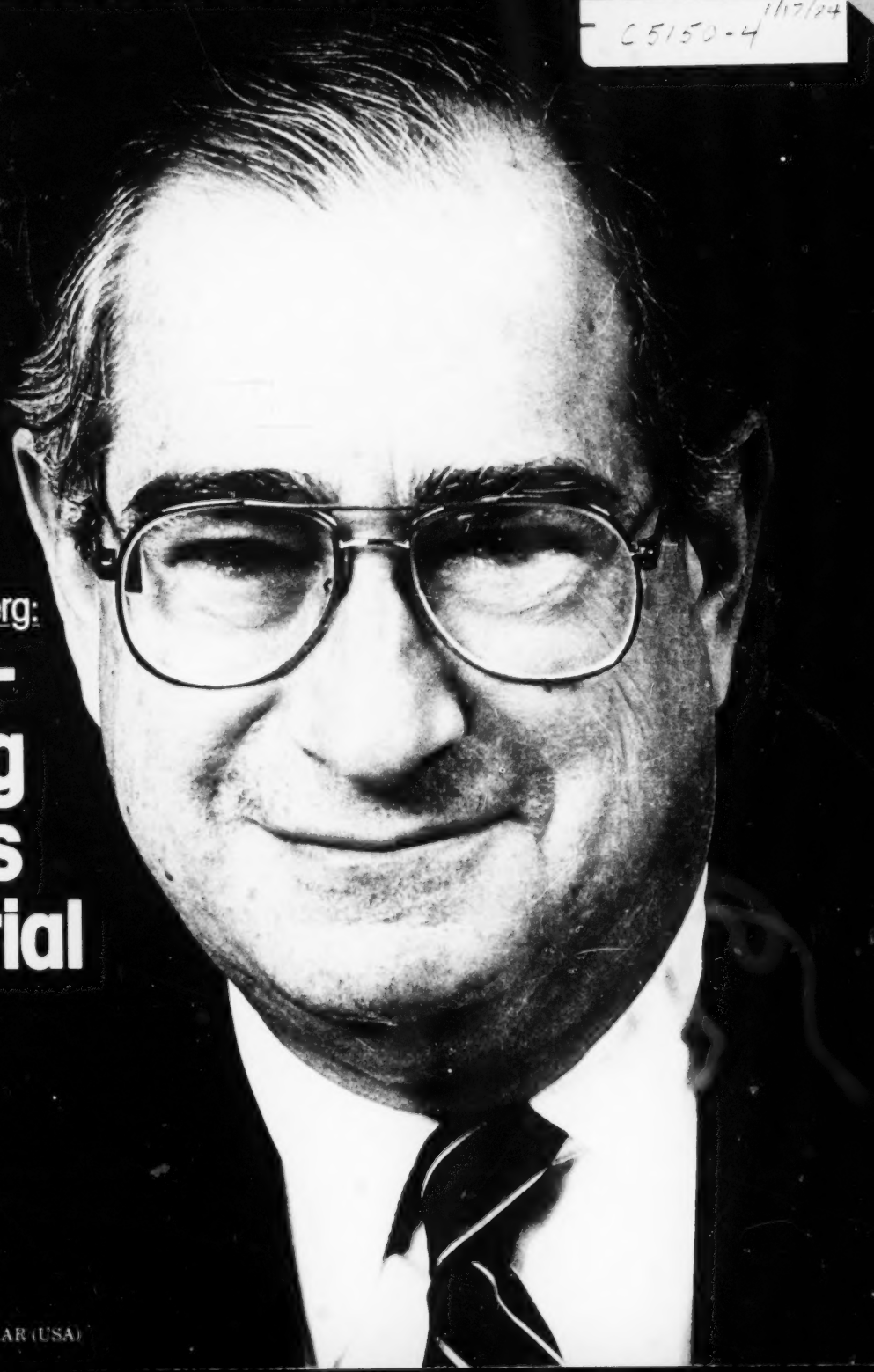

Sumner Feldberg:

Maxx-imizing Zayre's potential

TWENTY DOLLARS A YEAR (USA)

Chain Store Age EXECUTIVE Volume 60, No. 1/January 1984

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Length of time using LIFO method of inventory valuation

	Category				Factors important in LIFO decision			Chain size		
	Department	Discount	Specialty	Drug	BLS	Inflation	Inventory	Up to $90M	$90M to $210M	$211M and over
3 years or less	5%	27%	27%	38%	28%	21%	21%	29%	19%	11%
4-5 years	7	37	27	23	22	25	21	22	12	20
6-8 years	10	3	17	23	13	11	12	18	12	8
9-10 years	23	23	13	13	14	18	18	11	19	29
11-20 years	36	7	3	7	13	12	14	9	23	11
21 plus years	27	3	10	3	9	9	14	9	16	13

Source: Lebhar-Friedman research

LIFO survey shows it's here to stay

Most large-volume department, discount, specialty and drug store chains have been using the LIFO method of inventory accounting on average for approximately 10 years and only a handful are even considering giving it up over the next couple of years.

The LIFO intentions of the chains were disclosed in a survey of 120 major chains (a qualified chain was restricted to the top 100 in volume of each of the aforementioned classes of retailing) by the Research division of Lebhar-Friedman, done exclusively for *Chain Store Age Executive*.

The 120 companies surveyed operated 21,132 units and had a total annual dollar volume of $56.78 billion. The average chain represented in the survey was affiliated with an average of 190 units and reported an annual dollar volume of $521 million.

By chain type, the breakout was as follows:

	Annual volume (millions)	# of units
Discount	$879	128.1
Department	568	17.1
Specialty	319	447.0
Drug	262	192.1

Respondents were asked to indicate how long the LIFO method of inventory had been used in their respective chains. On average, department store chains have a longer history of using LIFO than any other class of retailing. The average for this category is 17 years, even though LIFO was first recognized in the landmark Hutzler Bros. case in a court decision back in 1947.

The span far exceeds the other categories: specialty (9.7 years); discount (6.7), and drug (6.6).

Almost all large-volume ($100 million or more a year) department stores and many discount, specialty and drug chains used the Department Store Inventory Price Indexes established by the Bureau of Labor Statistics as an indication of inflation.

The dominant factor influencing the adoption of LIFO by all retailers is "tax benefits"

These include 20 specific indexes and two overall general ones (*see chart*). It is these indexes that most general merchandise chains use to estimate their LIFO reserves, the amount they set aside for inflation factors.

Some specialty and drug store chains use specific parts of the BLS index or, in conjunction with the IRS, make up their own.

The survey shows that 28% of all respondents cited both the nature of inventory mix and the inflation rate as factors influencing the amount set aside for LIFO. Another 23% cited the BLS index as the influencing factor. The highest single element was the 53% of the drug chains which cited the rate of inflation.

In support of the survey, *Chain Store Age Executive* polled a cross section of retailers to find out what their projections are for LIFO reserves in 1984 and found that most are currently indicating that they think it might be over 5%, based on the BLS, compared with between 3.9% and 5% in 1983.

However, many financial officers of these same chains are already waffling and are indicating that they think the 5% estimate may be too high and that by the end of the first or second quarter, they may revise their estimates downward (*see story on the economic forecast in this issue*).

Department and discount stores generally are projecting a 5% rise in their LIFO reserves based on their guesses of the BLS index for 1984. Among drug chains, the estimated LIFO reserve projections run as high as 6% at some chains, although one large chain estimates that the 1984 rate will be less than the 4% it had in 1983. A number of specialty chains, especially apparel, say they do not use LIFO reserves because it doesn't pay them to add back the markdowns at the end of the year.

LIFO is an acronym for last-in, first-out, as contrasted to FIFO (first-in, first-out).

Under LIFO—the last-in, first-out method of inventory valuation—recent acquisition costs are used to price inventory (even though in actuality, the inventory bought last is not sold first).

Therefore, a conversion to LIFO will result in tax savings, especially in a rising market. It also will improve cash flow.

For conversion to LIFO to be advantageous, conditions must include high inflation: a level of markdowns that does not exceed the benefits of inflation, and rising inventory costs.

Most financial experts note that at best forecasting the amount put aside for LIFO reserves is an inexact science. Because there are so many indexes in the BLS, there could be inflation in some, deflation in others and no change in still others. In addition, some chains add back markdowns at the end of the year, and some (mostly specialty stores) often do not.

According to the survey, 57% of all the chains (60% of department stores, 63% of discount stores, 47% of specialty stores and 57% of drug stores) said that the circumstances which led to the adoption of LIFO methods were tax benefits. This includes deferral or reduction of taxes, and increases in cash flow and working capital.

Also, 46% of the total mentioned the high rate of inflation. The most significant mention of inflation was by drug chains (60%).

Although "tax benefits" was the dominant factor influencing the adoption of LIFO in all classes of trade, differences did exist among respondents with respect to the importance of other factors cited. For example, drug (60%) respondents were more apt to spontaneously mention "high rate of inflation" as a cause for adopting LIFO than were their counterparts: department (43%), discount (43%), specialty (37%).

In addition, a significantly higher proportion of discount (30%) than drug (10%) retailers said that the LIFO method was a more accurate method of accounting allowing for a better reflection of products. Specialty retailers (23% vs. 0% discount), on the other hand, were more inclined to think that LIFO was a better way to control and keep track of inventory.

A significantly higher proportion of discount (17%) than either specialty or drug (0%) retailers mentioned corporate policy as an influential factor in the adoption of LIFO.

When asked to describe the factors influencing the amount set aside for LIFO, the following factors were spontaneously cited by at least two in 10 respondents: Nature of inventory, including mix, growth value (28%), inflation rate (28%), BLS index (23%), calculations based on own or unspecified indexes (20%). Many chains do not carry the wide variety of products used by department stores and either attempt to use one of the 22 BLS indexes or make up their own.

At least one in 10 retailers mentioned reasons which included: tax benefits/financial benefits/more cash (13%), price/costs of products/projected sales (12%), past experience/corporate policies/accountant recommendations (11%).

Factors influencing amount set aside for LIFO
(By category)

	Department	Discount	Specialty	Drug
Nature of inventory/mix, growth value	23%	23%	23%	46%
Inflation	10	20	27	53
BLS	40	33	17	3
Non-BLS indexes	30	17	13	20
Tax benefits	23	10	7	13
Price/costs of products	3	10	13	20
Experience	3	10	17	13

Source: Lebhar-Friedman research

Asked to rate the importance to inflation, inventory levels, BLS or projected sales as factors in setting aside money for LIFO, the retailers attributed the greatest importance to inflation (74%). However, a strong majority also viewed inventory levels (61%) and the BLS (58%) as extremely important factors.

Department stores attributed almost equal importance to inventory level (63%), inflation (60%) and BLS index (57%).

Drug store respondents gave the most importance to inflation (73%) and inventory levels (70%). In contrast, the BLS index was viewed as extremely important by only 40% of the drug chains.

Discount and specialty retailers responded similarly, both attributing the greatest importance to inflation, rated as extremely important by 83% of the discount chains and 80% by the specialty store chains.

The BLS index was also perceived as extremely important by a heavy majority of discount and specialty (both at 67%) respondents, which was significantly higher than the response of the drug chains.

The retail executives were asked if they would consider discontinuing LIFO this year. The response was overwhelmingly negative—95% of the respondents would not consider discontinuing LIFO. Asked about 1985, the retailers were nearly unanimous in expressing a positive response in retaining LIFO. In fact, 98% of the retailers surveyed said that it was extremely likely that their chains would be using LIFO in 1985.

The reason for this attitude was explained by accountants when asked about the results. LIFO reserves continue to build, they say, and if a company discontinues LIFO it would have to pay back what they discontinue. Thus a retail chain in the 50% tax bracket would have to pay back half its reserves. If the accumulative reserves amounted to $50 million, they would have to pay the Government $25 million.

One financial officer points out that if a chain invests its LIFO tax savings prudently, LIFO-based net income can be expected to exceed FIFO-based income in seven to eight years.

The respondents were nearly unanimous in their agreement with the statement: "Over the long term, business will be affected by continuing inflation." Fully 96% of the respondents either agreed strongly or somewhat with the statement.

In addition, 89% said LIFO is a very fair system because it allows a retailer to match up costs of his inventory to the time he sells it, and 87% said LIFO improves cash flow as long as the company continues to grow and expand. ■

Department store inventory price indexes—July 1983

	% change to July 1983 from: January 1, '83	July 1982
I. Piece goods	2.7	4.4
II. Domestics & draperies	2.5	3.2
III. Women's & children's shoes	−1.2	−2.3
IV. Men's & boys' shoes	1.0	0.1
V. Infants' wear	2.4	4.0
VI. Women's underwear	3.3	3.3
VII. Women's & girls' hosiery	1.0	3.0
VIII. Women's & girls' accessories	1.2	5.0
IX. Women's outerwear & girls' wear	4.2	2.9
X. Men's clothing	2.4	3.0
XI. Men's furnishings	−0.2	2.1
XII. Boys' clothing & furnishings	3.2	3.8
XIII. Jewelry	2.4	2.6
XIV. Notions	1.4	2.7
XV. Toilet articles & drugs	0.4	0.7
XVI. Furniture & bedding	2.2	1.2
XVII. Floor coverings	0.9	1.5
XVIII. Housewares	1.9	2.0
XIX. Major appliances	2.0	1.8
XX. Radio & television	−1.2	−2.7
Groups I-XV: Soft goods	2.5	3.7
Groups XVI-XX: Durable goods	1.0	1.2
Store Total	2.5	3.0

Source: Bureau of Labor Statistics, U.S. Department of Labor

Favorable spending trends are supported by a lessening of inflation, improved employment rates, increases in income and lower interest rates.

1984 FORECAST

Recovery's tempo quickens

Beginning in spring of 1983, consumers returned to the stores causing spending to grow by an estimated 5.5%

As a very welcome change, for the first time this decade, a beginning-of-the-year economic forecast can begin on an upbeat note. The recession is over. The recovery has arrived.

According to many of the nation's leading economists, the good news will continue at least throughout this election year. After that, there's less agreement on what will happen. But that's next year's story. (Economic outlooks for specific retail classifications follow.)

Meanwhile, beginning in early spring of 1983, consumers have been back in the stores, causing real consumer spending to grow last year by an estimated 5.5%. One of the chief causes for this jump was pent-up consumer needs, particularly when it came to durable goods.

Now that many of these demands have been met, this year's rate of increase is expected to slow slightly, to approximately 4%. That's still a nice, healthy jump.

When it comes to GAF sales (general, appliance, furniture), Rosalind Wells, an economist with J. C. Penney, notes that "In 1983, as sales started to accelerate over the first half, GAF sales increased 5% to 6%, and then by 9% in the 3rd and 4th quarters, for an average of 7.5% for the year. The quarterly gains projected for 1984 range from 8% to 9.5% for a full-year average of 8.5%."

This activity is paving the way for what Walter Loeb, senior analyst for the retail trade and a vp of Morgan Stanley, forecasts will turn out to be a 42% average earnings increase among general merchandise retailers for fiscal 1983. For 1984, he predicts that the increase will turn out to be a further 15% to 17%.

This is all extremely good news for the more than 7,000 general merchandise retailers who will be gathering in New York City this month to attend the annual convention of the National Retail Merchants Association (*see related story*).

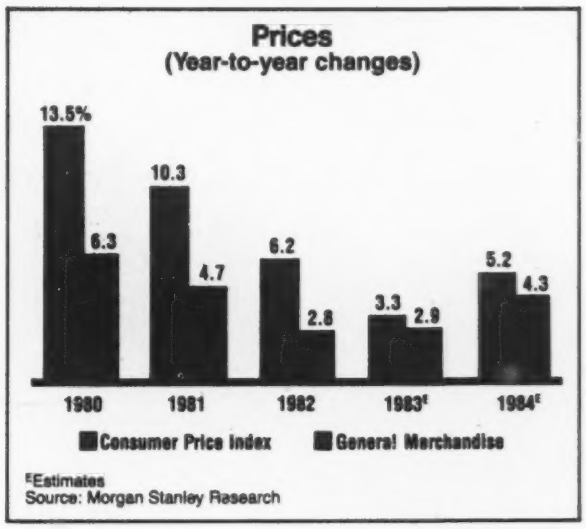
If preseason projections held true, they have come off of what shaped up to be "the best holiday season at least since 1978," forecast Sandra Shaber, director, consumer economics for Chase Econometrics.

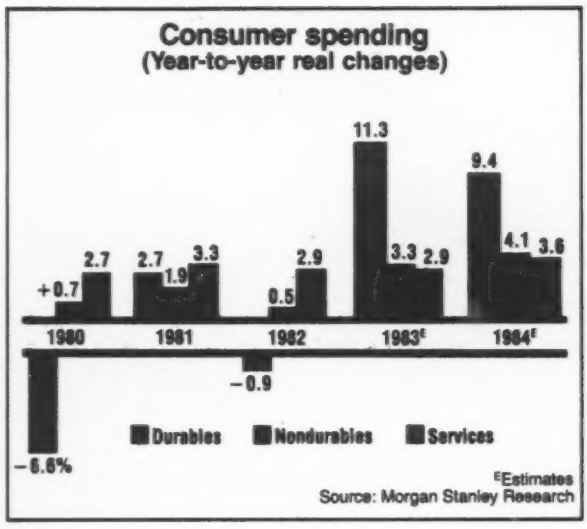
Loeb was forecasting Christmas season increases for the general merchandise segment of between 12% to 13%, or 10% in real terms (based on the Consumer Price Index hovering at around 3% during this period.)

Perhaps most surprising in terms of what occurred last year, and what bodes extremely well for this year, is that the recovery happened at all. As Steven Roach, senior economist with Morgan Stanley recalls, when 1983 began, "There was still the question of whether there would be a recovery that year at all, or whether all that we would see would be a sort of limited economic rebound." There is no doubt now, though, according to Roach, that the recovery is well under way, ready, in fact, to lead straight into overall expansion.

He points out that looking at real GNP numbers, in 1983 there was "a shade less than 5% growth." He expects this to be followed up in 1984 by growth of approximately 6.25%, again on a fourth quarter to fourth quarter basis. Year-over-year, he places GNP growth at 4.3% in 1983 and 5.5% for 1984.

"This means average quarterly increases of 5.5%, which is exactly in line with the average quarterly increase for the first two years of the average recovery period," Roach explains. "The outlook is for normal, cyclical expansion in the United





States economy."

Roach and other economists all agree that consumer spending has definitely been the major force in getting the economy back on track—not surprisingly since this accounts for two-thirds of the nation's total spending.

Chief factors most often cited as having contributed to (and continuing to support) the favorable consumer spending trend include: a lessening of inflation; increases in total household income; improvements in the unemployment rate, and lower interest rates.

The main gauge for the rate of inflation continues to be the Consumer Price Index (CPI) and for most of the year it had been at around 3.5%. But by the end of 1983 it had risen to the vicinity of 5% to 5.5%, according to Rosanne Cahn, an economist at Goldman Sachs. "Over the next year this may move up to 6.5%, but I don't believe that will have much effect on consumer spending and on the recovery itself," she says.

At Morgan Stanley, Roach is referring to 1984 as a "grace period for inflation." Measured on a GNP deflation basis, he sees it at 4.5%, rising to 5.25% and then to 5.5% by the end of 1984. "But when it comes to 1985, watch out though," says Roach, who predicts that the rate will climb back to at least somewhere between 6% and 7%. (Dean Witter Reynolds' economists see the Consumer Price Index on average at 3.26% for 1983, climbing to an average 4.69% for 1984. All economists are allowing considerable leeway for variations.)

Wells at J. C. Penney observes, "because of increases in wages and salaries, plus other factors, the income side is already very positive. With inflation at modest levels, real gains in income are substantial."

(The prearranged tax cuts, the last on July 1 of last year, helped in boosting real disposable income.)

She points out that upper-income households, in particular, are in good shape, having seen substantial increases in their total net worth over the last year. These stemmed primarily from the strength of the stock market and the bond market. This has meant that "people have been more willing to dip into savings."

During the late summer and early fall of last year there was, in fact, some concern that the savings rate, which decreased to 4% in the second quarter and then rebounded slightly to 4.7% in the third quarter, may have fallen too far. However, those economists who closely observe consumer spending patterns, maintain that even if consumers should decide to up their savings again, this should not have any serious impact on consumer spending patterns.

According to Shaber of Chase Econometrics, "There is certainly the risk that consumers could retrench again and we are assuming that the personal savings rate will probably edge up. But our forecast calls for a 6.5% increase in disposable personal income in 1984 so that allows for pretty hefty growth even if the personal savings rate edges up to 5%-5.5% this year."

One major factor affecting consumers' attitudes toward personal savings is a general lessening of fears concerning job security coupled with decreases in the rate of unemployment itself.

Wells points out, "Already there are close to three million people back to work and, as of November, the unemployment rate was down two full points from the high in December of last year. This can't help but make consumers more confident.

While conceding that "I don't think people in general are now as concerned about losing their jobs," Shaber cautions that "the sharp drop in unemployment of October of last year may have raised some false optimism and I don't think we are going to be seeing anything like 0.5% monthly improvements. The unemployment rate still remains awfully high and this could dampen consumer attitudes and spending."

Retailers gather in New York

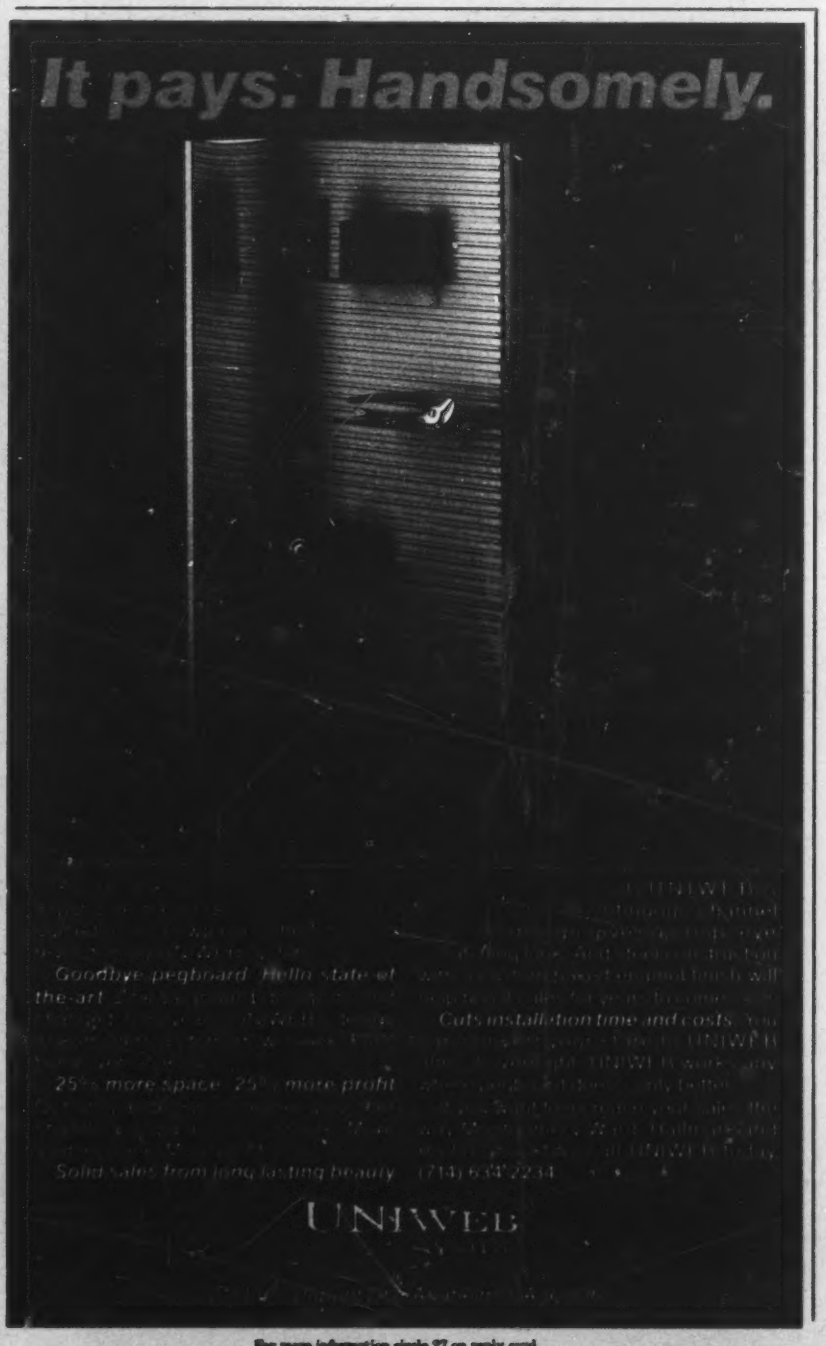
What: National Retail Merchants Association's 73rd Annual Convention and National Retailers Business and Equipment Exposition.
When: Jan. 8-11, 1984
Where: The New York Hilton and Sheraton Centre Hotels, New York City.
Who: More than 10,000 retailers.
Featuring: Nearly 90 sessions covering many aspects of retailing; more than 550 exhibit booths of displays and demonstrations of the latest in retail business equipment and services.
To be honored: NRMA Gold Medalist: Allan R. Johnson, director, BATUS Inc., Louisville, Ky.; former chairman NRMA.
Other award winners: Harry N. Jackson, vp-credit, Dayton Hudson; E. James Stavrakas, director of quality assurance, J. C. Penney; A. Robert Stevenson, vp-government and legal affairs, K mart; Gertrude Strull Kisber, chairman, Kisber's Department Store, Jackson, Tenn.

However, latest figures indicating consumer attitudes and consumer sentiment are "very, very positive," according to Fabian Linden of The Conference Board which carefully monitors such trends.

In addition to concern over the unemployment rate, the other major "risk" remains the interest rate picture. As Shaber observes, "Consumers have become extremely interest rate sensitive in recent years, but more to the direction of interest rate trends, rather than being inhibited by the absolute level."

The spring 1983 declines in the interest rates already helped to revive the ailing housing market. Although housing starts weakened somewhat in September, most predictions call for housing starts (including more multiunits than ever before) to come back to "near normal" level of 1.7 million this year.

A strengthening of the housing market, in turn, has a positive impact on such merchandise classifications as furniture, appliances and home furnishings. At Dean Witter forecasts call for sales of household appliances to climb by approximately 4.7% and sales of home furnishings (both in current dollars) to climb by approximately 5.8% this year. That's in comparison to gains of 5.5% and 7.5%, respectively, in 1983. ■



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DISCOUNT

Big ticket items step up pace

Discount operations around the country had a strong runup in high ticket sales during the latter part of 1983 and discounters expect the trend to continue well into 1984.

With the formerly unemployed returning to work, David Glass, vice chairman and cfo of Wal-Mart, observes that "The consumer has developed a good deal of confidence and people will continue to spend." In particular, he expects "bigger ticket fringe items such as color televisions and electronic goods to sell well. The fascination with the new technology is creating demand."

He adds, "I think there is still pent-up demand. In this country we are consumers; there is a compulsion to consume."

Russell Isaacs, chairman and ceo of the 122-unit Heck's, headquartered in Charleston, W. Va., believes that although the recovery is not fully under way yet in Heck's markets, "We see the recovery quickening its pace this year. Historically our area is behind the rest of the country." ■

DRUG STORES

Steady growth to continue

No great drama lies on the economic horizon in 1984 for the chain drug store industry, known to be as boom-proof as it is recession-proof.

A survey of drug store executives shows that most expect the recovery that began last year to continue through 1984, although at a slower pace.

Most are projecting inflation in the industry to average 5%, with interest rates remaining near their current level.

Robert Arensmeyer, cfo for Peoples Drug Stores in Virginia, notes that Peoples, "is having an excellent year now. We look for continued growth next year." In the longer term, Arensmeyer believes that Government borrowing may raise interest rates "and cause some problem."

optimistic about the outlook for our business in 1984. The key economic indicators are positive. The employment figures are encouraging, the inflation numbers are good, and I believe interest rates will be relatively stable in 1984. All this should result in consumers being confident about their jobs and income levels."

He adds, "Recent trends support our belief that demand will be especially strong for both our department store and specialty store operations."

HOME CENTERS

DIY dealers enthusiastic

Home center operators—pointing to consumer spending and growth in housing starts—are optimistic that the economic recovery will continue throughout 1984.

However, home improvement retailing is frequently affected by variables such as weather, interest rates and new market competition, factors which are unpredictable.

Yet DIY dealers are particularly enthusiastic about early 1984, noting that this just-past Christmas season was characterized by unusually aggressive seasonal promotions. Winter months are traditionally an off-peak period for home center retailers.

Scotty's, of Winter Haven, Fla., which currently operates 100 home centers in Florida and one in Valdosta, Ga., is one of several DIY dealers whose confidence in the continued expansion of the economy is surging.

The largest- and fastest-growing building supply retailer based in Florida, Scotty's plans to continue expanding at a 10% rate per year, according to Ray Cooney, president. The chain reported a 16% sales increase during the first nine months of fiscal 1983 and a 26% increase for the quarter ended Oct. 1—with quarterly earnings rising 53%.

Scotty's, as with many building material suppliers, normally depends on DIYer consumers for about 70% of its business. During the two-year period in which the recession brought commercial building to a near standstill, however, Scotty's DIY customer "ran up to approximately 80% of Scotty's business," says Cooney.

In the last months of 1983, DIY dealers were reporting healthy sales gains, apparently reflecting the renewed enthusiasm among consumers to spend. ■

OFFICE EQUIPMENT

Words, words, words . . . an office dilemma

Before installing a system, a company should draw the opinions of the people who will use it.

As the border between personal computing and word processing blurs, soon to disappear completely, retailers face a confusing array of choices about office automation. "The technology of this industry builds on itself," notes Barbara Cooper, director of information systems for Miller & Paine department stores in Nebraska. "It's terribly complex, so it takes a lot of thought."

Indeed, the need to improve office productivity heightens the dilemma of trying to decide which way to go. Should one focus on dedicated word processing or choose word processing software adapted to the personal computer?

The question may rest on whether IBM's personal computer and IBM's tremendous power in the industry will determine the course of a retailer's office operations.

Already, a study of word processing patterns by *Chain Store Age Executive* finds that all of the 200 retail chains surveyed recognized the IBM name in word processing. Almost 50% of those executives use IBM word processors, far exceeding the use of the nearest competitors, Wang with 15%, Lanier with 8%, Exxon with 6% and Xerox with 4%. On average, those chains spent $58,500 on word processors, with some 10% spending over $71,000.

Dave Terrie, a senior analyst with The Yankee Group consulting firm in Boston, explains: "Word processing systems *per se* are fading rapidly in the marketplace. Even the classic CPT, Lanier and Wang word processing systems do at least some degree of personal computing. Typically that has been 8-bit to date, but very shortly a supplier won't even get looked at without 16-bit," or without compatibility with IBM's MS/DOS operating system.

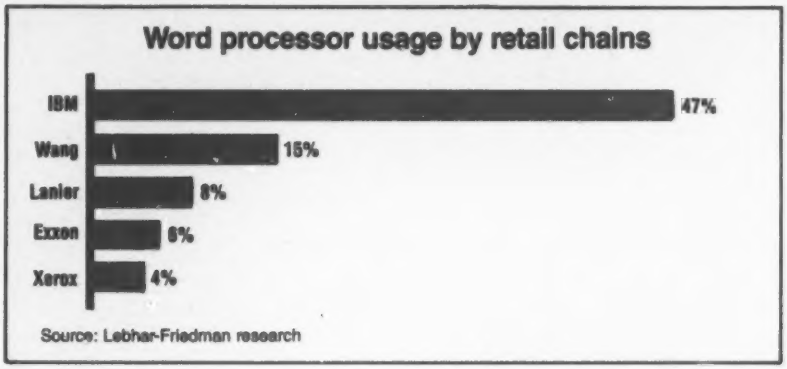
The need for compatibility be-

"Don't accommodate your business to a particular piece of equipment," warns Gallagher

tween management's personal computers (PC) and support staff's word processors (WP) will become more urgent as automation spreads to the upper organizational levels. Yet most vendors of either kind of equipment "have not developed an adequate bridge" between personal computers and word processors, says Terrie. Without that bridge, a company cannot, for example, incorporate PC spreadsheet data into a WP document, even though most personal computers can run their own separate word processing software.

Another linkage problem arises with SNA, or systems network architecture. Any word processing vendor "should be able to handle full SNA," says Terrie, "simply because large IBM networks are increasingly SNA-based. If you want to send your data over that network or pull data off that network, that's the mode your con-

Retailers should look for a vendor whose systems can handle a wide variety of software.



nection is often going to have to take."

The fundamental question, however, of whether to buy a personal computer and find word processing software to run on it, or to buy a dedicated word processor, is not simple. At first glance, one might choose the first because it's cheaper and more versatile. A PC with printer and software will run around $3,400, while a stand-alone WP with everything on it will run over $7,000.

While the quality of third-party software programs for PCs is improving, they "don't provide even remotely as friendly an atmosphere for the secretary or whoever's going to use it," says Terrie. "A company that says, 'Well, we'll go with the IBM PCs and find some word processing software to run on them, is something that company should be very careful with in terms of shoving the software down the throat of the user."

And included in the higher WP price is a far higher degree of service. The personal computer is often sold through retail outlets that give very little support after the system is sold. Word processing vendors, on the other hand, usually provide extensive training.

In addition, many companies already have an installed WP system. That entails hardware, a library of software and trained operators who are adept with the system. While both software and hardware conversions to PCs are available, they aren't perfect. And if users are effective with the installed system, "taking that machine away and throwing something else at them may really in the end be counterproductive," notes Terrie.

Nonetheless, dedicated word processing systems as a separate entity in the information network are fading from the market. New systems are based now on minicomputers or microprocessors that offer not only word processing but data processing and the entire array of computing services from electronic mail to business graphics, all in one system. But even if a retailer wants to convert, communication problems arise, especially when more than one vendor is involved. Therefore, upgrading systems and choosing vendors "can be a complicated planning cycle to watch out for," cautions Terrie.

Before installing a WP system, a company should draw the opinions of each department that will come in contact with the system. Of critical importance are the opinions of the users themselves, especially if they are already using a WP or a PC, from the secretaries on up. "The worth of the system is highly dependent on how happy the users are with it," says Terrie. "You could have as much as 50% difference in effectiveness" if users aren't happy.

The buyer should also make sure that the vendor can grow with future needs, and that the equipment is compatible with the company's own organization. Warns Jeanne Gallagher of Lanier Business Systems, "The type of system chosen must depend on the company buying it. Don't accommodate your business to a particular piece of equipment." With 190 or more vendors to choose from, the retailer should look for one who has systems that can handle a wide variety of software, have large memories, and which can connect with communications systems planned or in place. ■

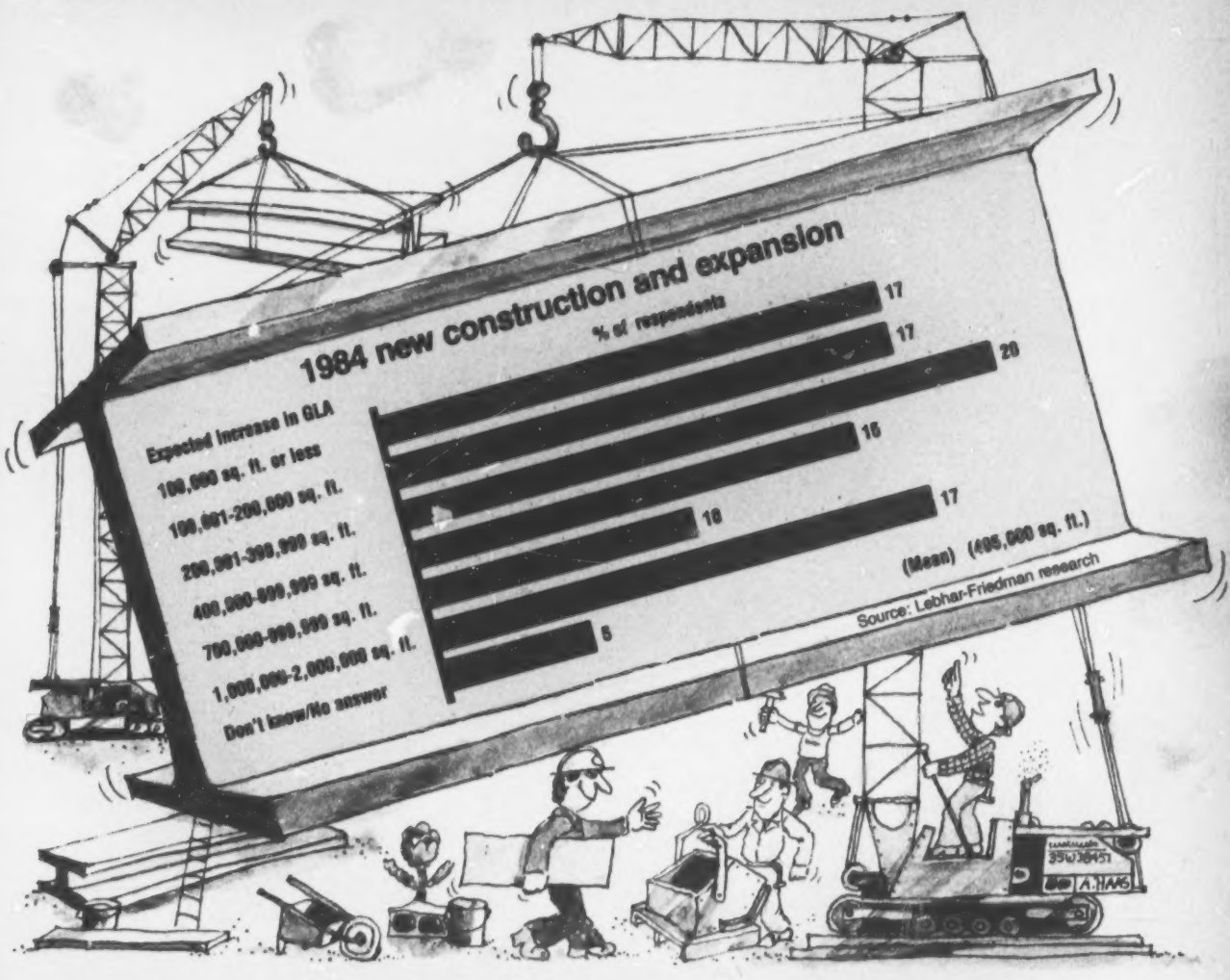
OFFICE EQUIPMENT

On the other hand . . .

Here are two widely different solutions to the word processing conundrum. One, taken by Stix, Baer & Fuller department stores in St. Louis, uses the Fortune word processing system, a takeoff from Wang. The other rests in a centralized, dedicated word processing system used by Miller & Paine department stores in Lincoln, Neb. Both meet the disparate needs of these retailers.

Jim Merello, director of MIS for Stix, Baer, says the Fortune word processor is a "networkable, very fast computer" that can be used as a professional desktop. But in addition to the Fortune, Merello will be getting more IBM personal computers for management.

"We opted to get the Fortune and use it as a word processor with the ability to network other terminals for future enhancements," says Merello. "We needed a word processor, so we decided to get one that could be used for other things. This can be used as a professional desktop, but it's networkable, it's a little bit bigger than a micro, it has a hard disk on it and available space on the hard disk can



Developers get back to business

According to *Chain Store Age Executive*'s research, developers are planning substantial increases in GLA, an average of 31%, before year-end

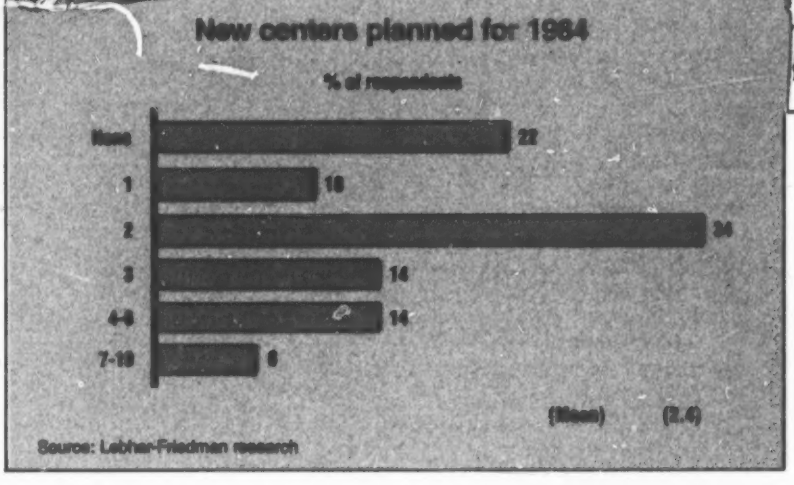
In case anyone is still expecting this year to be a slow one for the shopping center industry, just try and tell that to the nation's leading developers of retail space. They are so busy traveling around the country, supervising expansion of existing centers and/or new construction, signing up tenants and arranging for future deals that it's practically impossible to pin them down.

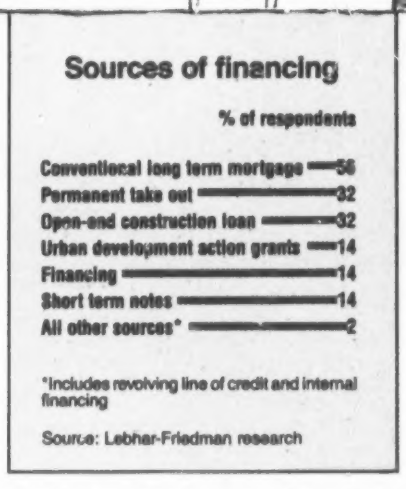
All of this activity is clearly both a cause and an effect of the economic recovery and expansion now taking place. But it is also the outcome of the convergence of two factors particularly appealing to shopping center developers: the increased availability of long-term financing at rates at least somewhat palatable, and a retailing sector that is very much in the expansion mood.

Although this year the after-shocks of the recession (and the tight financing situation) are still sounding, research conducted by *Chain Store Age Executive* indicates that 82% of the respondents are planning substantial increases in their gross leasable area (GLA) before year-end, by an average of 31%. In terms of square footage, the average increase is 495,000 sq. ft.

Of the respondents, to date 44% have been involved primarily in regional mall development, 36% in local "strip centers," 10% in off-price/factory outlet malls; 4% in mixed-use developments, and 2% in specialty theme centers. "Other" forms of retail development was cited by 2% and 2% indicated "Don't know/No answer."

Looking to future areas of involvement, the survey results bear out the increasing interest being shown by the industry in mixed-use developments, with 10% of




Sources of financing
% of respondents
Conventional long term mortgage 56
Permanent take out 32
Open-end construction loan 32
Urban development action grants 14
Financing 14
Short term notes 14
All other sources* 2
*Includes revolving line of credit and internal financing
Source: Lebhar-Friedman research

respondents indicating this will be their major area of involvement in the future. Specialty theme centers are also on the increase, with 4% saying this will be the major area where they focus their efforts.

Somewhat surprisingly, there was no increase in the percentage citing off-price/factory outlet malls and for regional malls; the number fell just slightly to 42%.

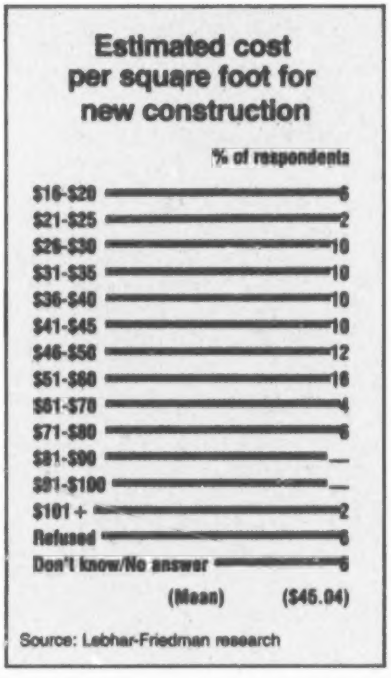
The biggest decline was in "local" strip centers, falling six percentage points to 30%.

Regarding the average size of centers presently under construction, the largest percentage of the respondents, 36%, are in the range of 100,000 to 200,000 sq. ft. This is followed by 18% with centers in the range of 601,000 sq. ft. to 1 million sq. ft. and 14% with centers under 100,000 sq. ft.

Of the remainder, 8% are 201,000 to 400,000 sq. ft. and 8% are 401,000 to 600,000 sq. ft. Sixteen per cent of the respondents are not presently involved in the construction of new centers.

Of those constructing new centers, they are currently involved in an average of two such projects.

A further reflection of obvious trends in the industry is the fact that a number of respondents noted that much of the space being opened during 1984 is the result of the expansion of existing properties.



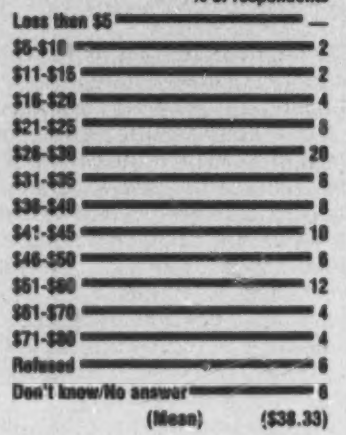
This trend reflects the following: the recent high cost of money; the limited availability of prime sites for new center construction; changing demographics in the market areas of existing centers, and the expense advantages of adding space through expansion rather than through new center construction.

According to the survey results, the average estimated cost per square foot for the expansion of existing properties is $38.33. This compares with an average of $45.04 per square foot for new construction.

Whether through expansion of space or remodeling of the existing area, 54% of the respondents expect to refurbish a portion of their centers before 1984 is over. The percentages indicate: 18% are planning to refurbish from 1% to 9% of their centers; 14% between 10% and 19%; 14% between 20% and 29%, and 6% between 30% and 50%. Two per cent of the respondents indicated "Don't know/No answer."

The survey also confirmed that when it involves both new construc-

Estimated cost per square foot for expansion of existing properties



Source: Lebhar-Friedman research

tion and/or expansion and refurbishing projects, the greatest areas of activity continue to be in the Southeast and the Southwest. Each area was cited by 42% of the respondents, respectively.

These were followed by: Midwest with 8%; the Northeast with 6%; 0% for the Northwest, and 2% reporting that they could not designate a single area.

Conventional long-term mortgage financing was clearly the most often used form by these companies as well as being the one most preferred.

However, other forms of financing currently being used and reported by the respondents included: permanent take-outs, used by 32%; open-end construction loans, 32%; Urban Development Action grants, 14%; short-term notes, 14%, and "other" forms of financing, 16%.

Although many respondents indicated that they presently use several of these forms of financing, a whopping 74% (again not surprisingly) indicated that they would prefer being able to finance projects through a single source. That certainly hasn't been the usual situation in the past few years.

Like many such surveys, this one didn't reach any definite conclusions. Yet, there are several that can be inferred.

- Developers, at least through 1984 and on into 1985, still see the Sunbelt as the prime place to be.
- Regional malls are continuing to be built smaller, reflecting both decreased average store sizes and the entry of such malls into "middle market" areas.
- Developers will continue to place considerable emphasis on expansion and/or refurbishing of existing properties.

Not only does 1984 promise to be extremely active, but this survey indicates sustained growth through 1985. (It is certainly no secret that many projects planned for 1985 openings and beyond are already well along.)

The survey results indicate that 64% of those participating already have plans for increasing GLA in 1985, with the average percentage increase (operating on a larger base) at about 23%. The average in square footage terms is approximately 450,000 sq. ft.

The indications are clear. The shopping center industry won't be the same as it once was. But with a changed emphasis, it may very well turn out to be even better. ■

HINDSIGHT:

"I always come away with at least one good idea that more than pays for the trip."
—Jim Cline,
Director of Store Planning, Ribordy Drugs, Inc.

"I find that the most valuable part of SPECS from the specifiers point of view is that we get to meet with others in our field and are able to pass along information about vendors who attend the show. I like the informal, word of mouth way we exchange information. The give and take of the workshop sessions is also good, and the new computer workshops are excellent. SPECS is fun."
—Michael Sotire,
Manager, Remodels, Waldenbooks Co., Inc.

FORESIGHT:

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HINDSIGHT:

"SPECS gives me a chance to compare notes with other retailers and meet with people in my field in the workshop sessions and the exhibitor idea-exchange display rooms."
—Bob Letcher,
Director of Store Services, King Soopers

"I like the opportunity to meet with others in my field to nurture new ideas. Also, because of the fact that our equipment vendors were available to us for 3 1/2 days of business and social contacts, we were able to work out some existing problems and improve our relations. SPECS was instrumental in getting us together."
—Duane Naccarato,
VP, Store Planning, Wal-Mart Stores, Inc.

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